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C O N F I D E N T I A L SECTION 01 OF 02 WARSAW 001091

SIPDIS

DEPT FOR S/CEE FOR AMB MORNINGSTAR AND REBECCA NEFF,
EEB/ESC FOR DOUG HENGEL AND ALEX GREENSTEIN, EUR/CE FOR
MARY GLANTZ, COMMERCE FOR HILLEARY SMITH

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SUBJECT: BALTIC ENERGY BRIDGE: POLAND CHEERS FROM THE
SIDELINES

REF: WARSAW 1029

Classified By: Econ Chief Michael Sessums for reasons 1.4 (b,d).

¶11. (C) Summary. The Polish government (GoP) views Baltic energy security as important to its regional diplomatic efforts, particularly to building EU energy solidarity and managing EU-Russian relations. However, the GoP does not believe that connecting Baltic energy markets to Poland or other EU states will directly impact Poland's domestic energy security. Polish political and national security officials will continue to cheer on Baltic energy security and vocally support a range of Brussels and Baltic-based initiatives. They are unlikely, however, to back up their political support with finance and new infrastructure, turning instead to encourage the EU to fund projects that they view largely as EU/Baltic priorities. End Summary.

Baltic Support Diplomatically Important

¶12. (C) The Poles have long pushed in Brussels for greater EU solidarity in facing what they view as Russia's use of energy as a weapon. Their arguments for EU energy sharing, regional storage plans, and emergency response mechanisms lack credibility without accompanying support for the interconnections needed to make that solidarity meaningful. Leaders from all major political parties have consistently expressed a national security interest in minimizing Russia's ability to use energy to manipulate Poland's neighbors or otherwise impact EU security policy. Both for coherence in their Brussels lobbying and as part of their effort to contain Russian influence in the neighborhood, Polish officials vocally support a range of Baltic energy security plans. Over the past two years, these have included gas and electric interconnections, nuclear power, and regional storage facilities. However, Poland has not yet backed up this rhetoric with related infrastructure investments.

Power Bridge and Ignalina/Visaginas Nuclear Project

¶13. (C) Proposals to link the Polish and Lithuanian electric grids - the "power bridge" - are at least 10 years old. The current version of the plan is organized around transmission of power from a proposed Lithuanian nuclear power plant, Visaginas, across the electricity bridge and into Poland. PM Tusk's energy advisor Maciej Wozniak told EconOff that the Lithuanians, however, have lacked focus during negotiations in part because they only very recently accepted that the plant Visaginas is to replace, Ignalina, would close as promised in Lithuania's EU accession negotiations. (Note: Ignalina's closure is now slated for the end of 2009).

¶4. (C) Polish officials express frustration with the lack of progress and transparency in negotiations on the Visaginas nuclear project, the electricity interconnections, and potential gas supply infrastructure. Straight disorganization aside, they point to secret side deals to secure additional Russian energy supplies that have impeded progress (referring to last summer's "BRELL" Agreement). Finally, officials from MinEcon, MFA, and state-owned power company PGE all contend that a very large share of Visaginas' electricity - a share too large for the Lithuanians to accept - would be needed for Poland to justify the costly power bridge and grid upgrades required to plug into the project. With poor commercial prospects, and little relevance to a self-sufficient Polish power market, the GoP is not likely to finance the power bridge, regardless of their public statements of support. The alternative? Economy Ministry Under Secretary for Energy, Joanna Strzelecka-Lobodzinska told EconOff quite frankly, "If this power bridge is just about connecting the Baltics to the EU, then the EU should pay for it."

¶5. (C) Lit-Pol management, the shell company created to develop the electricity interconnections and upgrades on both sides of the border, claim the project to connect Lithuanian and Polish grids is moving along. They cite declarations out of Brussels and regional leaders, EU funding commitments from the 2009 economic recovery package, and recent reorganizations within Lithuania and the Visaginas nuclear projects as signs of imminent action. However, they lack specifics as to how things might be financed or when work might actually begin.

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Gas Interconnections

¶6. (C) The GoP is equally skeptical of proposals to finance gas interconnections with Lithuania. Wozniak pointed out that state-owned Polish gas distributor, Gaz-System, made inquiries a few years ago as to what commercial interest existed in the region for interconnections. The company, he said, did not hear back from the Lithuanians. Citing poor local infrastructure and weak demand in northeast Poland, Wozniak and Gaz-System argue that connections to Lithuania do not make commercial sense. Moreover, gas interconnections, like electricity, suffer from eastern competition. Amortizing project development costs into gas rates makes an interconnection project, particularly a project designed for one-way emergency use, is expensive compared to existing eastern sources. Without an energy security subsidy, the business deal does not add up.

Regional Storage? Shared LNG?

¶7. (C) A new LNG terminal planned for the Baltic coast is a centerpiece of PM Tusk's energy security program. The first phase, to be completed in 2014, anticipates 2.5 billion cubic meters (bcm) of annual capacity to fuel growing domestic demand. The GoP envisions future expansion of the facility's regasification capacity to serve regional customers, including the Balts. Various businessmen interested in potential gas-storage projects encourage that vision and talk about regional storage facilities based in Poland. However, according to industry officials involved in the LNG project, LNG is not yet cost-competitive with pipeline gas, particularly when new infrastructure costs are priced in. Poland will finance its LNG terminal with a "security tariff" on all gas in its system. Storage also comes at a cost. Similar "security" financing would need to be worked out in the home markets of potential regional customers.

Comment: Why will Poland finance Baltic security?

¶8. (C) Poland will continue to support, in principle, connecting the Baltic energy island to the EU as part of its overarching interest in European energy solidarity and containing Russian influence over Poland's neighbors and EU partners. However, this moral support is unlikely to translate into action and infrastructure unless the EU comes through with a greater funding commitment or otherwise links EU support for Poland's own energy priorities to active Polish participation in Baltic energy security. Further US encouragement would likely be helpful only if we also linked Polish action on these Baltic questions to a broader discussion of Poland's security agenda.

TULLEY